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EXECUTIVE SUMMARY

Nigeria: Macroeconomic Assessment and Agenda for Reforms

BY



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MACROECONOMIC ASSESSMENT AND AGENDA FOR GOVERNMENT AND DONOR INTERVENTIONS

EXECUTIVE SUMMARY

This assessment Report is based on the premise that the Government of Nigeria needs help to meet the challenge of initiating an inclusive rapid growth with social-structural transformation--- to strategize, prioritize, and to manage its own resources better. But such must be predicated on sound analysis and evaluation of the state of the economy. This Report provides an assessment of the macro economy, with a view to highlighting some key pressure points for strategic intervention. The full report (about 190 pages) is organized in five key parts as follows: After the Introduction and methodology in Section I, Section II provides a general assessment of the structure and performance of the macro-economy in terms of output, income, expenditure, and policy thrusts. In Section III, the microeconomic perspectives, especially in relation to the competitiveness of key sectors of the economy, are provided. Section IV assesses the nature, severity and responses so far to the poverty challenge and decay of the social sector. Section V evaluates the prospects for the medium term, and offers some broad recommendations for possible Government policy actions as well as programmatic interventions by donors. This Executive Summary provides a skeletal overview of the key messages, and is organized in five sections: Section I presents the Introduction and Methodology of the Report; in Section II the summary of findings is presented. Section III examines the Medium term growth prospects and requirements for growth, while Section IV outlines the summary agenda for growth and competitiveness. Section V concludes by examining the possible programmatic areas for donor intervention and suggestions for effective aid delivery mechanism.

1: Introduction

Nigeria has the potential to become Sub-Saharan Africa's largest economy and a major player in the global economy by virtue of its rich human and material resource endowment. But much of its potentials (see Box 1.1) have remained untapped, and if current trends continue, Nigeria runs the risk of not meeting the internationally agreed Millennium Development Goals by 2015.

Nigeria's economic landscape especially since the oil boom of mid 1970s has become the textbook example of Africa's economic growth and development tragedy. Relative to its own history and in comparison with other countries (in Africa and Asia, especially Indonesia which is comparable to Nigeria in most respects) the economic development tragedy stands out. With a GDP of about \$43 billion in 2001, the economy has shrunk to a third of its size in 1981, per capita income has shrunk from about \$1150 in 1981 to barely \$300 in 2001, and Nigeria is now one of the 20 poorest countries in the world. As at 2001, Nigeria had received approximately \$300 billion from oil exports since the mid 1970s, but per capita income was 20% less than the 1975 level, and the country has become so heavily indebted (70% of GDP) that it has serious difficulty servicing existing debt. All major

productive sectors have considerably shrunk in size since the 1980s. Poverty is deep, severe and pervasive, with about 70% of the population living below poverty line. Poverty is also becoming *dynastic* in Nigeria—with the threat that the children of the poor are also likely to end up poor. Income distribution is so skewed that the country is one of the most unequal societies in the world, with 50% of the population having only 8% of the national income. The economy remains highly de-capitalized and undercapitalized, uncompetitive and at a pre-industrial and pre-exporting stage. With an average annual investment rate of barely 10% of GDP, Nigeria is too far behind the minimum investment rate of about 30% of GDP required to unleash a poverty-reducing growth rate of about 7-8% per annum. Nigeria is not only very poor; it also experiences the worst forms of de-capitalization (human and financial). Because of the risky and unprofitable investment climate, private agents have chosen to keep the bulk of their assets abroad (with independent estimates of the stock of capital flight abroad at over \$50 billion), and over one million Nigerians (mostly highly educated) have emigrated to Europe and the U.S. (brain drain). Most of the FDI into the country goes into the oil and extractive sectors. The economic structure remains highly undiversified, with oil accounting for 95% of exports, and manufacturing sector accounting for less than 1 percent of exports. Nigeria has been losing international market shares even in its traditional (agricultural) exports since the 1970s.

All these are the legacies of decades of dictatorial misrule and a myriad of self-inflicted constraints and policy errors. Government reputation has been badly damaged, and frequent policy reversals were major features of past governments. The country and its institutions so degenerated for decades that it has been consistently ranked number one or number two most corrupt country in the world by the Transparency International. Some of the other legacies of the past pertaining to investment and trade include very high, widely varying levels of protection across sectors, perverse incentive structure, no effective lock-in of policy and institutional reforms within a regional and global context, high transaction costs, risky, uncertain and unprofitable investment climate, import dependent and unproductive firms, and inexperience, as well as non-confidence among Nigerian businesses in their abilities to compete in international markets. Given path dependence, there is still a hysteresis of the past, and it would take extraordinary efforts to break out of the web of vicious circles into which Nigeria is currently mired.

The new administration of President Obasanjo was mindful of these challenges and expectations. It promised Nigerians in its *Obasanjo's Economic Direction 1999- 2003* (pp.8-9) to establish “one of the leading economies in Africa: an economy that experiences rapid and sustained growth at not less than 6-10% per annum at the end of the present Administration's tenure. The creation of a national economy that is highly competitive, responsive to incentives, private sector-led, broad-based, diversified, market-oriented and open, but based on internal momentum for its growth...is the goal”. There is broad public-private sector consensus around this goal.

Economic performance in the past four years since 1999 has been a mixed grill of promise and disappointment as the new civilian government grapples with the daunting task of turning around an economy paralyzed by decades of mismanagement, corruption, and ethnic division. The challenges are not made easier by the immense expectations and pressure to deliver ‘democracy dividends’. Verdicts on the government's economic performance seem to oscillate around the extremes. For some critics, the economy has done very badly relative to its potentials (resources and given that oil prices almost doubled during the period relative to the average for the 1990s) and even relative to the Government's own contract with Nigeria as contained in the targets set in the *Obasanjo's Economic Direction, 1999-2003* (see Appendix Table 1 for overview of targets and actual performance).

On the other hand, even though the Federal Government has probably not met up to 50% of the targets it set for itself in its Economic Agenda, the Government scores its performance very high on the argument that it underestimated the extent of the decay and the time and resources needed to fix it. Whatever the interpretation of the performance, the fact is that Nigeria is set to miss the MDGs if current trends continue. The rate of economic growth required to prevent poverty from worsening is 5%, and about 7-8% required to significantly reduce poverty. But average growth rate in the last four years was about 3.3%, and hence poverty is worsening. Unemployment is threatening social stability and the cities are increasingly becoming unlivable due to violent crimes, the institutions of economic governance remain weak and inefficient, public service delivery is poor, Nigeria is still ranked a very corrupt country, etc. Thus, the challenges are still immense, and call for urgent actions.

The size and strategic importance of Nigeria in Africa (especially in West Africa) is such that the stakes are very high. Nigeria is the source of stability in the West African region--- having led a multilateral peacekeeping force to Liberia and Sierra Leone, and continuing peace-keeping role in the sub-region. On the economic front, Nigeria accounts for about 55 percent of the West African GDP. Thus, a vibrant and growing Nigerian economy will act as a strong growth pole for West and even Central Africa. Sub-Saharan Africa as a region cannot succeed in reducing poverty and it cannot reach the MDGs of 2015 unless Nigeria, with one-fifth of the African population, succeeds in its own economic development.

But Nigeria has enormous potentials and a window of opportunity to initiate and sustain a quantum leap forward (see Box 1.1). From all indications, Nigeria mimics a post-conflict economy, and better-managed African economies in similar situations—Uganda, Mozambique, Ghana, etc have sustained higher growth rates for a long period. The continuing consolidation of the democratic experiment offers an opportunity for constructive dialogue on how to move forward. Furthermore, there are tremendous opportunities waiting to be exploited---tremendous entrepreneurial abilities of Nigerians, goodwill of the international community; and opportunities offered by several bilateral and multilateral trading arrangements---Africa's NEPAD and ECOWAS integration, U.S.- AGOA, EU-ACP Cotonou Agreement, the impending Economic Partnership Agreement with the European Union, etc. All these require the unleashing of an investment boom and achieving production diversification/export competitiveness as the winning strategy for rapid growth, employment creation, and poverty reduction. The bigger task lies in articulating a coherent strategy and identifying internally-consistent set of instruments to achieve the broad goal. This is especially a daunting challenge in an environment with decades of crude import substitution industrialization, a dominant mind-set that is highly protectionist and with little capacity and constituency for aggressive reforms towards a competitive market economy.

Nigeria needs help. The Government needs help to meet the challenge of initiating an inclusive rapid growth with social-structural transformation--- to strategize, prioritize, and to manage its own resources better. But such must be predicated on sound analysis and evaluation of the state of the economy. This Report provides an assessment of the macro economy, with a view to highlighting some key pressure points for strategic intervention.

Methodology and organization of the Report

The approach used in the Report is descriptive but mostly analytical. Fundamentally, the approach provides an in-depth economic assessment of the macro and micro aspects of the economy but complemented with an evaluation of the human development record. The emphasis on the human development balance sheet derives from the fact that the economy is ultimately about people and

resources. Thus, no proper understanding of the economy and its future prospects can be made without a better understanding of the human development indicators--- human capital resources, poverty and inequality, gender issues, employment, and factors likely to hamper productivity such as the HIV/AIDS pandemic and exclusion/ suppression of productive groups such as women.

As much as possible, the analysis of the most recent developments (last five years) is done in comparative perspectives--- in comparison with the country's own historical trends but in some cases also with other African and developing country performances. The goal is to dramatize the distinguishing features of the economy and its management, as well as its key economic development challenges. The key questions to frame the discussions in each section include: where is Nigeria relative to where it needs to be?; why is it where it is?; what has been done in the past or being done currently to change the situation?; what are the lingering challenges, and a possible agenda for change?

The assessment is data intensive, and the data are from secondary sources. The macroeconomic data come from the publications of the Central Bank of Nigeria, Federal Office of Statistics, relevant ministries and government agencies, the World Bank's Global Development Indicators, the IMF's World Economic Outlook databank, International Financial Statistics; and from sundry publications as indicated in the references. The micro (sectoral and competitiveness) analysis relies heavily on firm level surveys such as the World Bank's RPED survey of the manufacturing sector in 2001 and the Private Sector Assessment Report; the UNIDO's competitiveness survey 2001 and the Report; surveys of the manufacturing, agriculture and other sectors by the Federal Office of Statistics; the Investor Road Map surveys; the FIAS survey of administrative barriers to business; the surveys and Reports by the Manufacturers Association of Nigeria; etc. The human development evaluation draws from the various poverty assessment survey results; the UNDP's Human Development Reports (global and Nigerian country reports); rural development assessment surveys; various surveys and reports by the Federal Office of Statistics on the social sector; etc. The latest data for most macroeconomic statistics are for 2001¹, and some of the illustrative tables and Boxes are in the Appendix.

The range of published materials and unpublished reports used in this Report are diverse, including those from the federal government, study reports and policy documents by donor and multilateral agencies, and publications and reports emanating from the private sector. The Government of Nigeria's various policy documents include the National Development Plans; National Rolling Plans; annual budgets; Vision 2010 documents; publications by the Central Bank of Nigeria, Ministry of Finance on the economy; specific sectoral policy documents such as those for trade; agriculture; industry; oil and gas; education; health; the Government's strategy paper for Consultative Group meetings with the Paris Club; draft Poverty reduction strategy paper (PRSP); Obasanjo's Economic Direction, 1999—2003; etc. The documents from donors and multilateral agencies include the various IMF Staff Reports for the Article IV Consultation; the World Bank's Country Assistance Strategy papers; various donor sectoral studies and strategies for Nigeria; etc. The private sector provides an assortment of sources, including the publications by the Manufacturers Association of Nigeria, the various summary reports of the annual Economic Summits by the Nigerian Economic Summit Group (NESG), annual conference proceedings of the Nigerian Economic Society (NES) on various aspects of the economy; news and features articles in various business newspapers and magazines pertaining to the economy; and published views and studies by independent analysts on the economy.

¹ The statistics for 2002 are still being compiled by both the Federal Office of Statistics and the Central Bank of Nigeria, and are not yet published. Although some of the data could be obtained from the files (unofficially), experience shows that they are often unreliable as the final published data often differ significantly from the preliminary data.

Box 1.1: Nigeria's Resource Endowments and Potentials for Sustainable Development

Nigeria has an estimated population of 120 million in 2001— nearly one-quarter of Sub-Saharan Africa's population, and it is estimated that one in every six black persons in the world is a Nigerian. The country is composed of more than 200 ethnic groups, and more than 500 indigenous languages and dialects, with three major tribes--- Igbo (East), Hausa (North), and Yoruba (West).

Nigeria spans an area of 924,000 square kilometers bordering the Gulf of Guinea, Republic of Cameroon, Republic of Benin, Niger and Chad. The topography ranges from mangrove swampland along the coast to tropical rain forest and savannah to the north. The Sahara desert encroaches upon the extreme northern part of the country. Some 10 percent of the land is covered with forest, and Nigeria's wood resources include large stands of mahogany, walnut, and Obeche. However, rapid deforestation has reduced Nigeria's forest by 50 percent in the last 15 years, and the potential for their future exploitation is extremely limited. The country's fishery resources are fairly small and are concentrated in the coastal area.

The importance of oil in the Nigerian economy notwithstanding, agriculture is the dominant economic activity in terms of employment and linkages with the rest of the economy. Roughly 75 percent (74 million hectares) of Nigeria's total land (98 million hectares) is arable and about 40 percent of this is cultivated--- leaving the remaining 60% of arable land idle. The United Nations Food and Agriculture Organization rates Nigeria's farmland from low to medium in productivity, but notes that most of the country's cultivable land would have medium to good productivity, if properly managed. Despite the existence of two major rivers, the Niger and the Benue, agriculture is predominantly rain fed. Yams, cassava, sorghum, and millet constitute the main food crops. The principal export crops are cocoa and rubber, which together account for nearly 60 percent of non-oil merchandise exports.

The country's proven oil reserves, all located in the southeast and south-south coastal area, amount to an estimated 27 billion barrels, sufficient to last for about 37 years at the current rate of production. Annual production of 2 million barrels per day (mbd) compares favorably to 1.2 mbd in Mexico. Proven natural gas reserves are estimated at 174 trillion cubic feet (equivalent to 30 billion barrels of crude oil), with an energy content slightly higher than the country's oil reserves. These reserves are comparable to those of Algeria, and will last for 110 years at current production levels. Nearly 80 percent of the natural gas produced is presently being flared and most of the remaining 20 percent is used for electricity generation. It is expected that the export of gas will be substantial after the year 2004. Nigeria's rivers also constitute a substantial energy resource, providing the country with nearly half of its electricity.

Nigeria is also blessed with abundant solid minerals deposits including, coal, tin ore, kaolin, gypsum, columbite, gold, gemstones, barites, graphite, marble, tantalite, uranium, salt, soda, and sulphur. The main non-oil exports include: cocoa, coffee, copra, cotton, ginger, groundnut, groundnut oil, gum Arabic, palm oil, rubber, soya bean, and timber.

Nigeria has about 40 universities and boasts of an educated labour force. Limited information is available on the size and the quality of Nigeria's labour force other than what can be inferred from broad social indicators. Various independent estimates put the unemployment and underemployment figures at around 40 percent of the labour force—with a very high rate of graduate unemployment. The adult illiteracy rate is 49 percent. About 76 percent of children of primary school age attend school; the participation rate falls to 20 percent for children of secondary school age. Average life expectancy at birth is 51 years.

Capacity utilization in industry is about 40 percent--- with 60 percent of installed (usable) capacity idle. Furthermore, independent estimates put the stock of capital flight to more than \$30 billion. This means that if appropriate policies and enabling environment are in place to induce wealth owners to repatriate just the interest earnings on their assets, Nigeria could reap \$3-5 billion per annum in return 'FDI'--- an amount which is multiples of current FDI inflow of barely \$1 billion per annum. Furthermore, Nigeria has a large domestic market—which could serve as a springboard for entering export markets in Africa and internationally. These and many other national assets could pave the way for seizing the many development opportunities, which exist in the wake of globalization of industry, trade, investment and cross-border cooperation. With skilful management such opportunities could be converted into achievements towards raising income per capita, creating employment and fighting poverty. These opportunities, however, have as yet largely remained unrealized.

Sources:

1. Moser et al, 1997 (p.5)
2. Nigeria IPRSP (Draft) September 2002
3. Other Government publications

II: Summary of Findings

From the analysis in the Report, some of the key messages in terms of findings include:

- Nigeria has had lost decades of stagnant growth and has been one of the slowest growing economies in the world on a per capita basis in the last 30 years despite receiving about \$300 billion from oil exports. There is great spatial and sectoral unevenness in terms of the share of GDP and growth performance: the Northern part of Nigeria with about 55% of the population accounts for about 35% of GDP while the Southern part accounts for 65%; production sector is still dominated by the primary sector—agriculture (41%) and oil (13%) while the secondary sector especially manufacturing has been stagnating (about 6% of GDP) thereby making Nigeria one of the least industrialized countries in Africa; the services sector has been the fastest growing sector since independence. Agriculture is still dominated by peasant agriculture with low and declining productivity; urbanization rate is one of the fastest in the world and with stagnant secondary sector, the urban unemployment is acute with the attendant high level of crimes and social-political tensions. Broad macroeconomic aggregates—growth, terms of trade, real exchange rate, government revenue and spending, etc have proved to be some of the most volatile in comparison to over 100 developing countries. High macro volatility has become a key determinant as well as consequence of poor economic management.
- Overall, the economy is characterized by low savings-investment equilibrium and low growth trap—and lack of high growth persistence is a defining feature of the economy such that in over 40 years, it has never had a growth rate of 7% or more for more than three consecutive years.
- The very low productivity/uncompetitiveness of the private sector and the lack of diversification of the economy are due mainly to the atypically very hostile business environment --- Nigeria is one of the most expensive places to do business in the world. The constraints to businesses range from infrastructure deficiencies, poor security of lives and property, pervasive corruption and rent-seeking, access and cost of finance, weak institutions, ill-defined property rights and enforcement of contracts, and incoherence and frequent reversals of economic policies.

- Nigeria is set to miss the Millennium Development Goals (MDGs): Poverty is deep, pervasive and worsening—with great regional, sectoral and gender disparities. Although poverty is widespread, extreme poverty and poverty incidence exceeding 80% are mostly concentrated in the Northern Nigeria. In particular, poverty is becoming *dynastic* in the sense of the children of the poor having narrowing opportunities to escape poverty. For example, because of the increasing deterioration of the public education system, education is fast losing its potency as the social equalization ladder. The elite and middle class send their children to private schools or abroad while the children of the poor are condemned to poor public education and hence become largely unemployable and/or unemployed/underemployed. Other social indicators are also under stress---inequality is one of the worst in the world; unemployment is threatening social cohesion, security and democracy; and the imminent HIV/AIDS pandemic is a potent bomb waiting to explode and with potential dire consequences for productivity in the economy.
- Despite efforts to promote private sector-led, competitive market economy framework, there is still the fundamental challenge of transition from statism and rent-seeking in an economy dominated by the public sector. The dominant mind-set is still that of command and control, inward-looking and protectionist despite the rhetoric about building a competitive market economy and deep vested interests which profit from the system have proved resilient. The overbloated and inefficient public service has become one of the key problems, and weak institutions and persistent implementation failures are other key features.
- Macroeconomic policy management has been characterized by the boom and burst cycles. Macro policy has been highly circumscribed by the high/inefficient but highly volatile and unsustainable public sector spending, and atypically high volatility of major macroeconomic aggregates. Fiscal decentralization has proved an enduring challenge to effective macroeconomic stabilization and efficient public finance management in Nigeria. There is also the lack of policy coherence between the states and the federal government, and even among the various agencies of the federal government.

III: Medium term growth scenarios

What does the future hold for the Nigerian economy? The message so far in this Report is that the Nigerian economy faces enormous challenges and a bleak future if fundamental steps are not taken to redress the legacies of the past. Among the many requirements for rejuvenating the economy is rapid and broad based growth. But if the past is any guide to the future, then the prospects are not bright. In the last 25 years or more, the highest average regime growth performance of about 5 percent per annum was recorded during the Structural Adjustment period (1986-92). This is just the growth rate required to prevent poverty from worsening (and not good enough to reduce it). The average growth performance in the 1990s (2.8%) is just equal to the population growth rate leaving per capita growth rate at zero, while the average performance since the civilian transition in 1999 (1999- 2002) was about 3.3 percent, with per capita growth rate at 0.5 percent per annum.

Table 1 below illustrates the implications of alternative growth scenarios for per capita income and poverty in the medium to long run. The scenarios assume that the respective growth rates are maintained until 2030, with no demographic transition (i.e., constant population growth rate of 2.8%), and also constant urbanization growth rate of 5% per annum.

- Scenario A considers the implications of Nigeria maintaining the average growth performance recorded in the last four years (about 3.3%) until 2030. Assuming that per capita income was \$300 in 2000², by 2015 it would have increased by just US\$23, and by 2030 by just \$48—leaving Nigeria as one of the 10 poorest countries in the world if current trends in the rest of the world continue. Poverty obviously worsens and given the poverty-growth elasticity, the incidence could be as high as 90 percent in 2030.
- Scenario B considers the implications of re-enacting the most sterling growth performance in the last 25 years, that is, the SAP era average growth rate of about 5 percent. This is the growth rate required to prevent poverty from escalating but not enough to reduce it. In essence, poverty incidence stays constant at 70 percent even in 2030, while per capita income increases to \$416 in 2015 and \$576 in 2030—still leaving the average Nigerian very poor.
- Scenario C considers the implications of Nigeria fundamentally changing its strategy and achieving an average of 7 percent growth rate per annum—which is the growth rate compatible with the Millennium Development Goal (MDG) of reducing the incidence of poverty by half in 2015. This growth rate leads to the halving of the incidence of poverty in 2015, and leaving less than 20 percent of the population below poverty line in 2030.

A caveat to these scenarios is that the impact of the ‘average growth rate’ on poverty would significantly depend on the sources of the growth. Poverty incidence may not significantly come down (even with the 7 percent growth rate) if the growth process is not pro-poor (that is, not broad based or broadly shared). It would make a fundamental difference whether growth is led by agriculture, small and medium scale enterprises and manufactures or by the mining and quarrying sector. It would also make a difference whether or not some of the severely poor states and locations receive targeted attention to jump-start a process of poverty reduction.

Table 1: Implications of Alternative Growth Scenarios

	2000 Actual	2015	2030
Per capita Income Assuming OBJ Average Growth performance (1999- 2002): <u>3.3% or 0.5% per capita</u>	\$300	\$323	\$348
Poverty (assuming 3.3% annual growth)	70%	80%	90%
Per capita income assuming SAP-era 5% annual growth (1986- 1992)	\$300	\$416	\$576
Poverty Incidence (assuming 5% annual Growth)	70%	70%	70%
Per capita income assuming MDG-compatible Growth rate of 7% per annum	\$300	\$556	\$1031
Poverty Incidence (assuming 7% annual Growth)	70%	35%	17%
Nigeria’s Population (with 2.8 annual growth rate)	120 million	182 million	275 million

² The assumption of US\$300 as the per capita income is the most generous assumption, given the poor database and also the fact that various institutions such as the IMF state the per capita income as about \$260.

Urbanization (with 5% annual rate of growth)	42 million (35%)	87 million (48%)	182 million (66%)
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These rather gloomy scenarios A and B, which derive from Nigeria's historical experience, are also in the context of a rather high population growth rate and high urbanization rate. If the population continues to grow at 2.8 percent per annum, there would be 275 million Nigerians by 2030, out of which 182 million or 66 percent of them would be in urban areas. Recall from the analysis in section II that the secondary sector of the economy, especially manufacturing has been stagnant. If this sector and the services sector do not grow sufficiently to absorb the surge of labor force to the urban areas or the rural areas sufficiently transformed to stem the rate of rural-urban migration, the prospective rate of urban unemployment would be chaotic.

Furthermore, all these are in the context of increasing desertification, land use intensification, and rain-fed agriculture with low productivity. If current trends continue, agriculture would increasingly not be able to support the economy both in terms of employment and income. The average age of the labor force in agriculture is about 48-60 years, and the growing food import bill (about 14.4% of total imports) attests to the potential food security crisis, as Nigeria is increasingly unable to feed herself. The natural resource base of the economy is depleting fast, and the process of diversification is very slow. The educational system is rapidly decaying with the result that an increasing proportion of the graduates are unemployable. All these have grave implications for poverty and unemployment, and hence grave consequences for crime, conflict and sustenance of democracy.

A more fundamental concern is the slowness in the change of economic governance, strategy, and implementation. There is a broad consensus to move towards a private sector-led, competitive market economy framework but little consensus and rigorous articulation of how to get there. Issues of policy and strategy are characterized by ad-hoc measures, frequent reversals, and policy choices not rooted on sound analysis. Weak economic governance—corruption, weak institutions, lack of transparency and accountability--- persists. Key macroeconomic variables remain highly volatile. Government finances are in crisis with domestic debt increasing by 250 percent between 1999 and 2002 (to about US\$10 billion), and an external debt burden, which the government is barely able to service about 50 percent of the contractual service obligations. Government finance is also characterized by pension crisis, arrears of salaries of civil servants, huge debts to government contractors and suppliers of goods and services, a boom and burst cycle of revenue and expenditure, mis-allocation and mismanagement of resources, etc (see section II for details). At the state government level, a major crisis is looming but goes largely unnoticed. In many states, debts are accumulating at unsustainable levels and weak institutions and economic governance are very acute. Escaping these traps into a sustainable development path can be daunting, except by a flute or a fundamental change of strategy.

Requirements for High Growth

There is a broad consensus that a sustained annual GDP growth rate of 7 percent or higher will be required to meet the MDG of halving the incidence of poverty by 2015. For Nigeria, this would be miraculous, given that in the over 40 years of independence, it has never achieved such a growth rate for more than three consecutive years let alone sustained over a longer period. Lack of *growth persistence* is a feature of Nigeria's economic history.

Achieving such a major growth turnaround requires an investment rate of at least 30 percent of GDP per annum (assuming the East Asian efficiency level or its ICOR). This translates to about \$12 billion in investment per annum. With a domestic savings rate of about 14 percent, and with a total resource

inflows (FDI and ODA) approximately 3-4 percent of GDP, there is still a financing gap of about 12-13 percent of GDP or about \$5 billion per annum of *additional* investment. Note that this calculation is predicated on a very low ICOR (high efficiency level comparable to that of the East Asian economies). In the medium term of next five years, it would be spectacular if Nigeria can attain such an efficiency level. If we use the current Nigerian ICOR--- which incorporates a very high degree of waste/inefficiency, the financing gap required to achieve the target growth rate could be as high as 25 percent of GDP or about \$10 billion in *additional* investment. Thus, under both scenarios (best and worst case scenarios of ICOR), the financing gap ranges between \$5- 10 billion of additional investment. These calculations, with all their imperfections in terms of the assumptions underlying them, still give a rough idea about the nature of the resource constraints—which is huge indeed.

To overcome the low growth trap and unleash a momentum for a virtuous growth path, Nigeria needs to invest huge resources in the right composition³, and also address waste and inefficiency. As shown above, merely improving efficiency to the level of the East Asian economies lowers the additional investment requirements by 50 percent. This is a fundamental agenda for moving forward.

Are there potentials for new beginning? Yes. In Box 1.1 the abundant resource endowments and potentials for sustainable development are enumerated. There are both resource and growth reserves to be exploited for quantum growth leap. For example, Nigeria mimics a post-conflict economy in terms of idle productive resources--- with two-thirds of arable land idle, unemployment over 40 percent, capacity utilization in industry about 40 percent, etc. There are also abundant but largely unexploited natural resources—gas reserves about 174 trillion cubic feet or equivalent of 30 billion barrels of oil, petrochemicals, coal, gypsum, gold, gemstones, uranium, marble, etc. The new democratic experiment—which seems to be consolidating, and the prospects of improved governance and better institutions—is an asset for better performance. As the privatization of public enterprises deepens, it also promises to buoy up the private sector, and eliminate rents and reduce inefficiency. There are also opportunities offered by the globalization process (and prospects for leapfrogging) as well as the preferential and differential trade concessions under the U.S. AGOA, the EU-ACP-Cotonou Agreement and impending economic partnership agreement. If appropriate incentives are in place, the brain drain of Nigerians in Diaspora could be turned into brain gain--- through increased remittances, technology transfer, and even return of capital flight (which could be up to \$2- 5 billion per annum). In other words, there are ample opportunities to jump-start faster growth—if the right strategy can be crafted and implemented.

IV: Summary Agenda for Economic Growth and Competitiveness

From the analysis in this Report, the agenda for reforms are self-evident, and there is a broad consensus around this agenda. It is fair to say that a broad consensus exists among key stakeholders in the Nigerian economy—Government, private sector, households, and external actors—on WHAT to do to get the economy going (see various Government policy documents for various sectors, the Obasanjo Economic Direction, 1999- 2003; the Vision 2010 Reports; various summary reports of annual Economic Summits, World Bank’s country assistance strategy papers, IMF’s memorandum of Article IV consultations, etc.). It is broadly agreed that the challenge of development should be that of rapid

³ As pointed out above, the composition of investment matters a lot for income generation and poverty reduction. For example, nearly all of the current FDI flows go into the extractive (mainly oil) industry. If they were to flow to the non-oil sector especially the SMEs, energy, agriculture, telecommunications, and export-oriented manufactures, the outcomes for employment and poverty could be dramatically different

growth with inclusion/poverty reduction, and that the key vehicle to achieve it should be a shift from statism and rent-seeking to a private sector-led, competitive market economy framework.

The broad consensus can be summarized viz:

To move forward, fundamental reforms must take place at several clusters of issues

Goals to focus on:

- Rapid and broadly shared growth (pro-poor growth)
- Diversification of production structure, and sustainable private sector-led growth, and
- Employment creation

Means/Instruments to achieve the goals around five major clusters

a. Improving economic governance:

- Reducing corruption and rent-seeking,
- Ensuring transparency and accountability,
- Reforming and strengthening weak and inefficient institutions for policy design and implementation, including:
- Strengthening and reforming public procurement system for transparency and accountability, and ensuring higher value-for-money in spending
- Reforming the civil service—rationalization/retrenchment, professionalization, and competitive wage structure
- Reforming the budget process and financial management
- Re-thinking fiscal federalism to manage oil rents and promoting competition at all levels of economic management

b. Managing Macro Volatility/stability

- New fiscal rules -- to manage boom and burst
- Addressing pension crisis
- Better debt management: No new borrowing -- [domestic debt becoming unsustainable -- grew 2.5 times since 2000- and \$4 billion to \$10 billion in 2002.
- Competitive and stable real exchange rate regime
- Better access and cost of credit for private sector

c. Infrastructure – urban and rural [critical for business and poverty reduction]

- Electricity; water
- Roads/ development of rail system
- Telecommunications
- Ports
- Efficient and effective service delivery models

d. Enlarging the domain of private sector

- Deepening the privatization Privatization program
- Money and capital market reforms to improve access to finance
- Institutional and regulatory reforms
 - Competition policy and anti-trust reforms

- Administrative barriers to businesses
- Incentive structure – taxes, EPZs, etc
- Strategic Integration to global trading system
- Targeting of SMEs

e. Targeting the poor and vulnerable groups

- Education, Health and agriculture
- Legislation addressing women's access to assets [e.g. land], Inheritance; women's rights [affirmative actions]
- Promotion of demographic transition
- Provision of high yielding agricultural inputs
- Government investment in land for agriculture
- Promoting corporate social responsibility – for redistribution
- Targeting disadvantaged areas in public investment
- Innovative approaches through private sector

V: Strategic Agenda for Donor Intervention

In the ideal aid delivery mechanism envisaged under the Comprehensive Development Framework (CDF) of the World Bank, and the various guidelines and rules of aid delivery approved by the OECD-DAC, all ODA should be effectively coordinated and completely aligned within the country's owned development agenda. The delivery mechanism should be mostly through the recipient government's budget; program aid and sector-wide approaches (SWAPs) replacing project aid; and harmonization of individual donor procurement, accounting, and reporting systems and aligned to the country's own processes and procedures. Under this framework, it is the recipient country's government, with its country-owned development agenda, that should dictate the priorities for donor intervention and provide leadership in donor coordination. Were this mechanism to be fully operational, there would be no need for donors to design their individual strategic plans. A recent evaluation of the CDF Framework by the Operations Evaluation Department of the World Bank⁴ shows that while progress is being made in some countries towards this framework, there is still a long way to go in many other countries.

Nigeria is significantly off-the-mark in terms of the conditions for effective aid coordination envisaged by OECD-DAC, especially in terms of having a country-owned development agenda and effective institutional framework and leadership to coordinate donor activities. Nigeria's relationship with donors has also been a rather bumpy one--- with the consequence of small but highly volatile aid inflows to the country⁵. The average civil servant jumps at every prospect of receiving money and

⁴ The Synthesis Report of the Evaluation (authored by Paul Collier, Charles Soludo, Carol Lancaster, Alison Scott, Ibrahim Elbadawi, John Eriksson, and Laura Kullenberg) is being published by the World Bank, and expected by end of May, 2003.

⁵ Nigeria's relationship with the multilateral agencies especially the World Bank and the IMF has not been a rosy one, and the two institutions come into Nigeria with significant baggage. Given the peculiar history of how structural adjustment program was introduced in Nigeria, the average Nigerian perceives these two institutions as 'bad news' in the sense that they are seen as being synonymous with anti-people policies. Indeed, the easiest way to blackmail a government in Nigeria is to label it as being beholden to the World Bank and the IMF. Other donors (especially the bilaterals) come with less baggage, but there is still strong suspicion of the so-called 'donor hidden agenda'. The so-called 'harmless donors'—the

support from donors although given the country's long history of isolationist policies and on-and-off relationships with donors, many are yet to transit from the siege mentality of 'us versus them' to see donors as development partners. On the other hand, the donors are yet to build enough trust and confidence to let Nigerians drive the process or are constrained by their procurement rules to insist on their own ways of doing business.

Thus, donors faces the challenge of how to design and deliver their assistance and be effective in assisting Nigeria achieve rapid and inclusive economic growth and development in the following contexts:

- a. **Relatively small aid budget relative to the size of the Nigerian economy:** As indicated earlier, total donor aid budget for Nigeria is at best 1 percent of Nigeria's GDP while the average country in Sub-Saharan Africa receives about 10- 15 percent of GDP in ODA. For individual donors, their shares are even much smaller. For example, USAID's projected \$60 million annual aid budget for Nigeria is about 0.13 percent of Nigeria's GDP—although it is still a large share of the total ODA to Nigeria. Relative to the *additional* financial needs (financing gap) of about US\$6 billion needed to achieve the MDG-compatible growth rate of 7 percent or more, the resource constraint faced by donors raises other challenges that need to be tackled in order to be effective.
- b. **Setting priorities:** Given the enormity of the economic development challenges and the relatively low aid budget, there is the challenge of how to set priorities, make maximum impacts and remain focused. Obviously, there will be demand and pressure to get into everything since literally everything needs to be done given the country's initial conditions. This temptation must be resisted.
- c. **Delivery mechanism:** Even when the priority sectors/programs are selected, there is the challenge of how to package and provide the assistance in such a way as to maximize its effectiveness.

We structure the recommendations around the two key themes of setting priorities and the delivery mechanism for effective impact on the economy.

At a general level, it is evident that the most important role for donors is to act as catalysts for change. That Nigeria has abundant resources is both true and false: true in the sense that its huge resources are being largely mismanaged, misallocated and wasted, and false in the sense that even if its so-called huge oil resources (amounting to about \$90 per capita per annum) is efficiently spent, there would still remain significant resource gaps in terms of the requirements for sustainable long-term growth. However, even just helping Nigeria to get its priorities right and its resources efficiently deployed would significantly turnaround the comatose economy and set it on a path to poverty-reduction. The first order of business for donor agencies and USAID in particular therefore should be to assist Nigeria spend its money wisely--- by supporting change agents within and outside of government, mainstreaming of best practice ideas through policy dialogues, technical assistance in policy design and implementation, and demonstrative projects on 'how to do' things.

UN agencies such as the UNDP, UNICEF, ILO, UNIDO, etc enjoy a high degree of trust but they have little cash to be effective.

Setting Priorities:

As indicated earlier, donors cannot be effective if they do not set clear priorities and stick to them. Such a prioritization must derive from the observed needs in the economy, donors' lessons of experience in the last four years, as well as their comparative advantages in the programmatic areas. From all indications and the evaluation presented in this Report, Nigeria belongs to what the World Bank refers to as 'Low Income Countries Under Stress' (LICUS). For these countries aid should be targeted to address governance and institutional issues as well as help deliver basic services to the people and businesses.

As indicated above, there is a broad consensus that for poverty-reduction and rapid growth in Nigeria, three key priority areas should include:

- Improving economic governance
- Creating the enabling environment for rapid private sector-led, competitive, and poverty-reducing growth in the non-oil economy; and
- Targeted interventions to address poverty, including the empowerment of local communities, and sectoral reforms in agriculture, health, education and the environment.

There are immense synergies among the three thematic areas. Without good governance and peace, economic development cannot proceed. But it is difficult to maintain peace and good governance where poverty is pervasive and social exclusion is extreme. And poverty reduction and rapid growth cannot be sustained without a vibrant and competitive private sector, improved agricultural productivity, and social sector transformation.

Thus, the USAID/Nigeria's recently approved Concept paper for the Country Strategic Plan (CSP) for 2004- 2009 is right on the mark by selecting the following four priority areas for strategic engagement:

- good governance and conflict mitigation;
- sustainable agriculture and diversified economic growth;
- social sector service delivery; and
- HIV/AIDS and tuberculosis.

It is expected that the Mission would actively seek opportunities for synergy and integration within these program areas and also between them. Five key cross-cutting themes that will be addressed in each strategic area have also been identified: food security, gender, HIV/AIDS, conflict, and environment.

Evidently, all these areas have direct impacts on the economy. They remain sufficiently broad to allow for innovation and flexibility. However, to guide operations, USAID needs to articulate even more tightly focused set of intervention areas and criteria for selection of programs and projects in the respective thematic areas. At the minimum, it is important to decide on the appropriate weights to be assigned to each of the programmatic areas for purposes of funding. A lot of subjective evaluations are involved in the assignment of weights and USAID has made its own subjective allocation of funds to the identified priorities.

More specifically, donor intervention as catalysts for change and better economic management should be more tightly focused, and translating the broad thematic areas into operational items requires some

strategic choices to be made. Such choices obviously derive from the perceived urgency of interventions in the areas and hence the likely high payoffs of such interventions in laying the foundations for sustainable economic transformation. Five key priority program areas are identified for immediate attention in the next few years as follows: a) **policy and process reforms and legislations** to support economic development; b) **economic governance**-- institutional reforms and strengthening of institutions for effective implementation and delivery of basic services for private sector operations; c) **supporting change ‘from below’**—institutional support to strengthen independent think-tanks, NGOs, business associations, TV programs for mass economic education, etc; d) **targeted sectoral interventions**—demonstrative projects in agriculture, networking of Nigerian and American businessmen, benchmarking competitiveness surveys, etc; and e) **State Governments**--- mainstreaming of best practices in public sector financial accounting and management in selected states in the six geo-political zones.

Table 2: Proposed Programmatic Areas for Donor Budget Allocations in Nigeria to Promote Sustainable Broad-based Economic Growth

PROGRAMME AREA	Percentage of total budget
<p>1. POLICY AND PROCESS REFORMS AND LEGISLATIONS TO SUPPORT ECONOMIC DEVELOPMENT</p> <p><u>A. Policy:</u> (Policy development, and public-private dialogues to generate and sustain broad consensus and support for economic policy reforms).</p> <ul style="list-style-type: none"> ➤ The PRSP or Government’s Economic Action Agenda ➤ Trade Policy; Industrial policy; financial sector policy; agricultural policy; Competition and anti-trust policy; ➤ Budget policy and process reforms; monetary and exchange rate policy; etc <p>* An important element of these policy reforms is to also support effective stakeholder participation in policy and institutional reforms⁶.</p> <p><u>B: Policy Dialogues:</u> Support for continuing public-private policy dialogues to mainstream best practice ideas, share experiences, and sustain support for economic reforms.</p> <p><u>C: National Assembly:</u></p> <p>* Set up equivalent of Congressional Budget Office</p> <p>TA Support for key committees in National Assembly for speedy and effective legislations needed to move the economy forward⁷.</p> <ul style="list-style-type: none"> ➤ Finance and Appropriations Committee ➤ Privatization and Commercialization Committee; etc, and target such legislations as: ➤ Commercial law reform ➤ Energy Reform Bill ➤ Freedom of Information Bill ➤ Federal Competition Bill; etc. ➤ Solid Minerals and Gas Reform bill ➤ Tariff Schedule bill 	

⁶ Experience has so far shown that one key reason why policies are frequently reversed is the lack of broad based consensus around them. In the past for example, tariff revisions were done in an opaque manner with the relevant government

<p>2. ECONOMIC GOVERNANCE: INSTITUTIONAL REFORMS AND STRENGTHENING OF INSTITUTIONS FOR EFFECTIVE IMPLEMENTATION AND DELIVERY OF BASIC SERVICES FOR PRIVATE SECTOR OPERATIONS</p> <ul style="list-style-type: none"> ➤ Federal Competition Commission ➤ Federal Procurement Commission ➤ The Budget Office ➤ Reformed Office of the Chief Economic Advisor for coordination and evaluation ➤ Budget Office in the National Assembly ➤ Federal Office of Statistics ➤ Nigerian Ports Authority ➤ Continuing support to BPE, DMO, BMPI, ICPC, NIPC, etc 	
<p>3. SUPPORTING CHANGE ‘FROM BELOW’</p> <ul style="list-style-type: none"> - Institutional support to strengthen the capacity of: - 2- 3 independent think-tanks (economic policy research) - 1 independent agricultural policy think-tank - 3- 5 Business Associations - 2 NGOs demanding transparency, better governance, etc - Economic Journalists’ training - Specialized TV program on Economic policy: for dissemination of research findings, sharing best practice ideas, public education on hard economic policy choices, etc. 	
<p>4. TARGETED SECTORAL INTERVENTIONS</p> <ul style="list-style-type: none"> ➤ Demonstrative projects in agriculture e.g. the Gum Arabic project; farmer to farmer project; etc ➤ Projects targeted at linking Nigerian exporters and businesses and their U.S. counterparts or markets e.g. under the AGOA program ➤ Annual benchmarking competitiveness surveys--- on institutional and administrative improvements in economic governance, and cost of doing business—to pressure government and private institutions to deliver effective services for competitiveness ➤ SME and Micro finance initiative 	
<p>5. STATE GOVERNMENTS: FINANCIAL MANAGEMENT (Strengthening the capacity of state governments’ financial accounting and management--- mainstreaming best practices in public sector financial management in selected states in each of the 6 geo-political zones). A start could be made with the selection of one state in each geo-political zone).</p>	
<p>TOTAL</p>	

committee and consultants revising the tariff schedules without inputs from the stakeholders. Such tariff schedules have often been beset with hundreds of petitions afterwards, and leading to frequent revisions.

⁷ This is a very important but often neglected area in donor support. Support for the Executive Branch cannot be effective if the enabling legislations are not in place. Two examples would suffice here. Without the Energy Reform Bill being passed by the National Assembly, the privatization of NEPA cannot proceed. Also, the Executive can be assisted to produce the best budget that makes the most economic sense, but experience in the last four years shows that the National Assembly can often enact the Appropriation Acts that bear little resemblance to the original bills submitted by the Executive branch.

Two key points need to be stressed from the above five thematic areas. First, policy and process reforms must be recognized as a key first step in Nigeria's economic transformation. A central message of LICUS initiative is that where the meta-level issues (right policy framework and governance/institutional capacity) are missing or weak, micro-level, sectoral interventions can be either ineffective or unsustainable. It is often difficult for donors to show tangible (measurable) impacts in these policy and process reform areas. Also, it is a difficult area to make progress especially in an environment with entrenched interest groups and weak institutional capacity. However daunting the challenges of making progress in these areas might seem, it would be a mistake to attempt to by-pass them: they hold the key for sustainable progress. Donors (and USAID particularly) should make continuing efforts to ensure better economic policy framework as well as sectoral policies that should underpin other micro-level sectoral interventions. Without a clear policy direction orchestrated through stakeholder participation to ensure sustainability, it would be difficult to sustain other interventions. The point however is not to freeze all other interventions unless and until the meta-level framework is right but to recognize it as a long-term area of engagement that should attract continuing interest.

The second point is to emphasize two new areas of strategic attention, and to deliberately allocate a certain percentage of the total budget to their realization. These are the empowerment and strengthening of independent institutions as change agents. Until and unless private sector institutions are empowered to demand for good economic governance and efficient service delivery, as well as provide alternative policy scenarios as basis for public-private sector dialogues, the citizens will be ill-equipped to hold the government accountable.

Delivery mechanism: How should aid be packaged and delivered?

This is a very critical but difficult question to answer. The attempt here is to outline some key principles rather than to write down hard and fast rules of engagement. A lot of judgement would be required on the part of the donor program directors in determining specific project/program design and budgeting as circumstances and performances change.

Targeting persons and/or institutions?

In principle, donors should target and support key change agents within and outside of governments. There are key institutions as outlined in Table 2, but there are significant differences among them in terms of the capacity of their leaderships. Ex-ante selectivity in terms of supporting proven reformers rather than hoping that aid or conditionality would create reforms is the new framework for aid delivery. But there is a clear tension here in the sense that certain institutions might be too important to be abandoned, and also given the frequency of change of personnel within government, targeting individuals alone can be tricky. A balance is needed: target greater resources to proven winners, while keeping engaged with critical institutions so as to possibly help to orchestrate change.

Aid Coordination and Leveraging of Higher resources

There is a clear need for increased aid coordination in Nigeria. Ideally, the government ought to provide leadership in this coordination, and this is not happening in Nigeria. The Bretton Woods Institutions--- World Bank and the IMF--- provide such leadership in many countries. In Nigeria, depending on the issues involved, the Bank and the Fund may have to cede leadership in the coordination to other donors such as the USAID, DFID, the EU, etc. The underlying point is the need

for effective coordination of donor assistance. Such coordination has the advantage of minimizing duplication and waste, and also ensuring higher impacts of aid delivery.

In an ideal coordination world, donors could pool their funds for specific programs and projects. The tension here is the pressure on individual donors to ‘plant their flags’ as well as the constraints of individual donor procurement rules. A lot of creativity would be required to make the pooling of funding work better.

An important but largely under-utilized resource of donors is the leveraging of additional resources. For example, the American power and influence could enable USAID to leverage other resources in sectors and activities where it is interested in. As a lead donor agency in providing pure grants--, it is possible that for every one dollar USAID invests, it could leverage additional five dollars. In effect, the \$60 million USAID annual budget could leverage additional \$300 million.

Partnership and Sustainability:

Right from the design stage of each project or program, donors should incorporate a clear exit strategy. Obviously, certain programs or projects should have just a short-term, once and-for-all implementation. Examples of such might include the privatization project which might cease when the privatization program ends . Some others are longer-term in nature. One possibility is for donors to target counterpart funding from government, other donors, and the private sector. For sustainability therefore, a key ingredient is effective partnership with local and international institutions and donor agencies.

A key element in the sustainability of the technical assistance program is the conscious effort to domesticate such assistance. To be effective, such a domestication process should target institutional strengthening rather than just ad-hoc involvement of free-lance local experts. For example, there could be a deliberate policy to require foreign consulting firms to bid for technical assistance contracts in partnership with local consulting or research institutions. This way, the continuing interaction of foreign and Nigerian institutions and experts would buoy up local capacity which resides not only in the individuals but also in the collaborating institutions. Thus, individual consultants can come and go, but institutions would remain.

Demonstrative projects approach

Ultimately, aid from most donors is dominantly technical assistance. Even if donors deploys all their budget allocation to only one sector, such a budget might still be far smaller than the total public sector spending in the particular sector. Thus, as a technical assistance program, donors should aim to leverage their vintage position to demonstrate best practice ideas on how to implement certain projects. Whether it is in the micro finance project, specific agricultural project, or delivery of public services, donors cannot be an effective or sustainable substitute for local resources or efforts. While insisting on counterpart local institutions and resources, donors’ comparative advantage will be the higher technical know-how on ‘how to do things better’ which derives from their global experiences. In all cases, it will be necessary to tailor specific projects within the country’s overall development strategy in the sector by show-casing examples of how to implement specific projects and programmes.

Re-thinking the Results Orientation and Measures of Performance

A common problem in aid delivery is the results-orientation and measures of performance. Often there is the problem of attribution. Most aid programs target poverty reduction. But several factors affect

poverty, and there are dozens of initiatives targeting the same outcomes. In the bid to ‘plant flags’ and claim any observed successes, individual donors often bunch together in ‘high performing sectors’ and neglect areas where impacts are difficult to measure. For example, it is tempting to cluster around projects that have high visibility--- schools built; hospitals built; etc, and perhaps neglect fundamental issues of institutional development and strengthening which are long-term and impacts difficult to measure. There is thus the conflict between the short run pressure to show results versus considerations for long-run sustainability and change. How the donors overcome this glaring pressure point would require creativity in the choices made and the delivery mechanism.

A possible re-orientation is to see outcomes within the context of ‘**team spirit**’, that is, **partnership**. If GDP grows faster or if overall poverty incidence drops, it is the result of effective development partnership. It would be unrealistic or incredible for any one donor agency or partner (not even the Federal Government of Nigeria in a federal structure) to effectively attribute the results to its own specific interventions.

Furthermore, it is possible to think of a different way of measuring aid impact through strengthened institutions, policy studies and better policy choices. For example, if \$5 million is spent to prevent a costly policy error or program design that costs the country say \$100 million, then the impact of the \$5 million is actually the alternative impacts of better spent \$100 million (which could have been wasted). If donor assistance had prevented the commencement of the Ajaokuta Steel Mill, and the equivalent of billions of dollars already spent on it had been applied elsewhere, that could be seen as the impact of the technical assistance. In Nigeria, given the very high waste or inefficiency, or very low value for money, donor assistance could significantly help improve the use of Nigeria’s money by funding such agencies as the procurement commission, budget monitoring and price intelligence, federal competition commission, etc--- all geared towards better economic governance, transparency and accountability.